

## 4QFY11 results beat consensus

- 4Q profitability shows significant sequential improvement:** Piramal Glass reported better than expected 4Q results with net sales at ₹3,289mn beating ₹3,178mn consensus; EBITDA at ₹907mn and EPS of ₹4.07 were 22%/44% ahead of ₹744mn/₹2.83 consensus. Sequentially, too, profitability showed a marked improvement: EBITDA margins rose from 24.6% in 3QFY11 to 27.2% in 4QFY11, the highest since the company began its turnaround nearly 5 years ago. The sequential improvement in margins was driven by lower other expenditure and freight cost. However, management sounded cautious with regard to input costs, especially natural gas prices, which are raised by 20% w.e.f. April 1<sup>st</sup> by Gujarat Gas. Piramal Glass said it took price increases in February and March to protect margins. Nevertheless, it lowered FY13 EBITDA margin guidance to 25-26% from 28% to factor in margin pressures from rising input costs. Next quarter onwards, margins are seen in the 25-26% range. Piramal Glass' US and Sri Lankan operations are reported to be profitable now, implying continued progress in turning around these operations. According to management, c.20% of the US business is sourced from production facilities in India, and future production growth requirements in the US will be met through the Indian facilities.
- Focus on premium cosmetics and perfumery (C&P) to continue:** Premium C&P revenues of c.₹750mn in 4QFY11 were flattish vs 3QFY11 and up 42% YoY. The segment's revenues are seen growing at a 28-30% CAGR from FY11-13E (vs c.31% growth in FY11). We believe company guidance also implies a c.25% CAGR in mass C&P revenues (vs 21% in FY11), c.4% in the pharma segment and c.11% in the specialty food and beverages segment. Total revenues CAGR is seen at 17-18% over the next two years. The company plans to add 210 tons per day (TPD) of manufacturing capacity to its existing capacity of c.1,140 TPD, of which 160 TPD will be via a greenfield expansion costing ₹1bn and the remaining 50 TPD will be added via a relining of existing furnaces that will cost ₹1.6bn. The capex will be financed mainly through internal accruals, and the company sees its debt-to-equity ratio declining from 2.75x currently to 1.5x by the end of FY13. Management believes that the key risks to the growth outlook are adverse exchange rate movements, further sharp increases in gas prices, or another serious economic recession in the western world.
- Guidance implies high-teens or better EPS for FY13E:** FY13 revenue and EBITDA margin outlook provided by the company implies FY13E EPS in the high-teens or even low-twenties, we believe (vs ₹11.6 in FY11). Against the FY12E consensus EPS of ₹16.5, Piramal Glass shares trade at a lower one year forward P/E (c.8x) relative to peers Hindusthan National Glass and HSIL. However, there could be some risk to FY12E consensus if rising input costs pressure margins.

**Exhibit I. Consolidated P&L**

Rs mn, except per share	1Q FY10	2Q FY10	3Q FY10	4Q FY10	FY10	1Q FY11	2Q FY11	3Q FY11	4Q FY11	FY11
Net sales / income from ops	2,456.6	2,928.1	2,818.9	2,835.6	11,039.2	2,783.2	3,006.6	3,106.2	3,288.6	12,184.6
Other operating income	51.6	61.5	43.4	64.1	220.6	40.7	60.4	63.5	50.8	215.4
Total revenues	2,508.2	2,989.6	2,862.3	2,899.7	11,259.8	2,823.9	3,067.0	3,169.7	3,339.4	12,400.0
Change in stock-in-trade & WIP	-126.8	-93.6	-11.8	-116.0	-348.2	125.6	145.3	-17.5	-64.0	189.4
Consumption of raw materials	-431.7	-626.2	-516.0	-564.3	-2,138.2	-646.8	-691.1	-597.9	-664.1	-2,599.9
Cost of traded goods	-60.1	-42.0	-15.3	15.7	-101.7	-7.4	-13.7	-13.9	-11.6	-46.6
Employee cost	-527.6	-530.4	-575.7	-549.4	-2,183.1	-581.9	-603.8	-580.4	-602.5	-2,368.6
Depreciation	-229.5	-228.6	-228.6	-219.8	-906.5	-228.7	-231.3	-269.5	-339.5	-1,069.0
Energy cost	-394.9	-440.1	-430.3	-428.6	-1,693.9	-433.1	-471.5	-465.1	-514.7	-1,884.4
Freight cost	-120.8	-156.1	-211.9	-194.0	-682.8	-194.8	-240.4	-233.2	-190.9	-859.3
Foreign exch. loss / (gain), net	-76.6	-68.7	-71.5	-121.8	-338.6	-21.3	24.8	4.4	62.7	70.6
Other expenditure	-397.4	-473.7	-476.3	-383.8	-1,731.2	-458.3	-510.6	-481.3	-384.3	-1,834.5
Operating profit	142.8	330.2	324.9	337.7	1,135.6	377.2	474.7	515.3	630.5	1,997.7
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest, net	-365.6	-309.8	-196.7	-177.0	-1,049.1	-169.8	-171.2	-190.3	-189.1	-720.4
Exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	-222.8	20.4	128.2	160.7	86.5	207.4	303.5	325.0	441.4	1,277.3
Tax expense	14.3	-14.7	-15.2	-38.6	-54.2	-31.8	-69.4	-59.4	-83.2	-243.8
Extraordinary items, net of tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	25.0	-0.3	-5.2	-7.5	12.0	-10.5	-27.4	-34.3	-31.1	-103.3
Profit after tax	-183.5	5.4	107.8	114.6	44.3	165.1	206.7	231.3	327.1	930.2
Basic EPS	-10.21	0.17	1.34	1.42	0.84	2.18	2.57	2.88	4.07	11.57
Diluted EPS	-10.21	0.17	1.34	1.42	0.84	2.18	2.57	2.88	4.07	11.57

Source: Company, JM Financial

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